Before the
Federal Energy Regulatory Commission

Discussion with Utility and Railroad
Representatives on Reliability Matters
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Comments
Of
CSXT Transportation, Inc.
Presented by
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CSXT Transportation, Inc. (CSXT) is pleased to participate in these discussions with FERC and our customers on the subject of electric power reliability and the respective roles of utilities, merchant power producers, coal mines and railroads.

CSXT is a major transporter of coal and welcomes opportunities to expand our participation in the coal transportation market. In 2005, CSXT handled over 180 million tons of coal. Over eighty percent of CSXT's coal volume is to the utility sector. CSXT is the largest coal transporter east of the Mississippi River, serving more than 130 coal mines in nine states, including three of the nation's top four coal producing states. During a typical week, 30,000 carloads of coal are loaded at the mines served by CSXT, and several thousand additional cars are received in interchange service from connecting carriers.

CSXT is a vital link between utilities and mines in the production chain of coal-based electricity. CSXT is committed to providing reliable service consistent with its role in the important chain of coal-based electricity generation. In 2005, coal

represented over one-fourth of CSXT's total revenue. At the same time, coal, as a percent of total tons on CSXT, accounted for over forty per cent of CSXT's total volume. Over the past two years, CSXT has shipped increasing volumes of coal, with tonnage growth of approximately six and four percent in 2004 and 2005 respectively. We are pleased to be able to report that tonnage is up an additional three per cent year-to-date in 2006, as our utility customers continue to grow their stockpiles.

Our customers are showing confidence in the future of coal, with many new coal-fired power plants now under development on CSXT's network. Three new coal-fired generating units have been announced in South Carolina, with construction already underway at two of them. New units have also been announced in Florida, Georgia, North Carolina, and Kentucky. We anticipate additional volumes from each of these new facilities ranging from 500,000 up to 2 million tons per year.

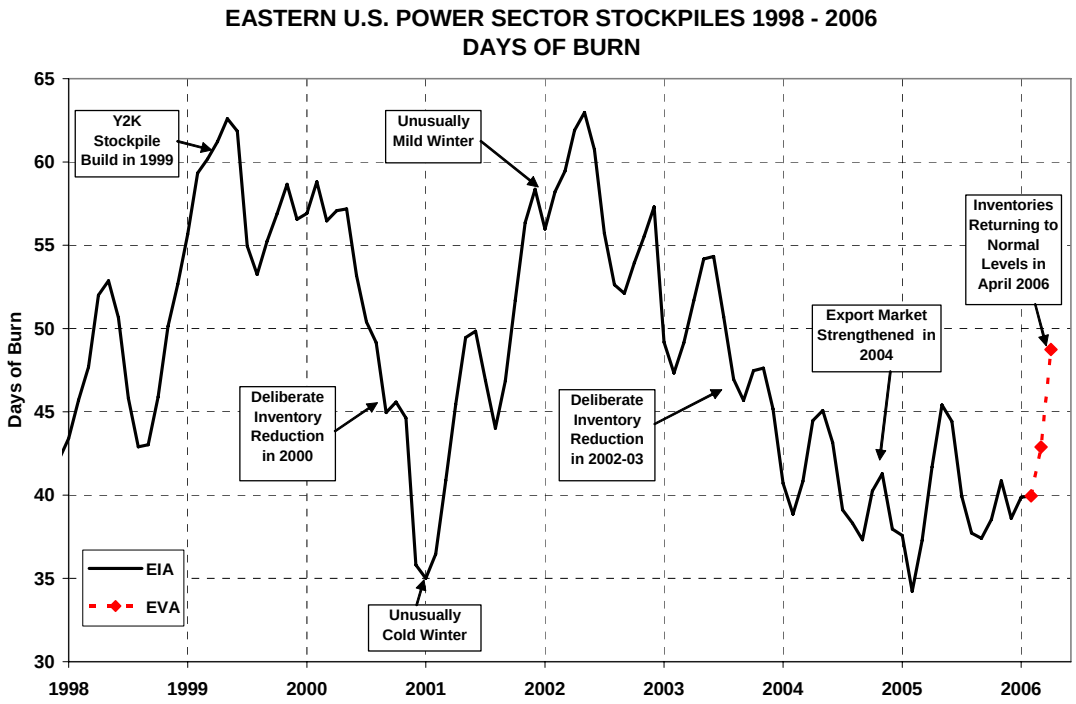
While CSXT is excited about the prospect of new construction, it is committed to developing opportunities to haul more coal within the existing marketplace. Two coal-fired power plants on CSXT, which have been receiving deliveries by barge and truck, have begun receiving CSXT delivery during 2006, as part of a long term project to win business from truck and water carriers.

CSXT has every incentive to carry as much coal as we can. We watch our car loading report daily. CSXT works hard to develop and promote new coal production and new coal generation on its system. CSXT recognizes reliability is the key for growth.

In recent years, coal volumes on CSXT have fluctuated, driven primarily by decisions by our utility customers. The variations in utility coal demand are best explained by reviewing stockpile data. The change in eastern electric power coal

stockpiles (utility and non-utility generators from DOE/EIA data) are shown on Chart 1.

Chart One



Data sources: EIA-Electric Power Monthly 1998 - Feb 2006, EVA-Coalcast Stockpile Report April 2006
Days of Burn= Calculated from end-of-month stocks divided by prior 12 month average daily burn.

The annual changes which we have experienced are:

1998/99: Utilities built stockpiles because of concerns about Y2K, and eastern stockpiles increased by 14.5 days of burn.

2000: Utilities reduced inventory build-up from prior years, and cold weather increased burn in late 2000, so eastern stocks fell by 20.8 days of burn.

2001: Utilities purchased more coal to rebuild low stockpiles from the winter, but burn fell due to mild weather and the recession, so eastern stocks grew by 22.5 days of burn.

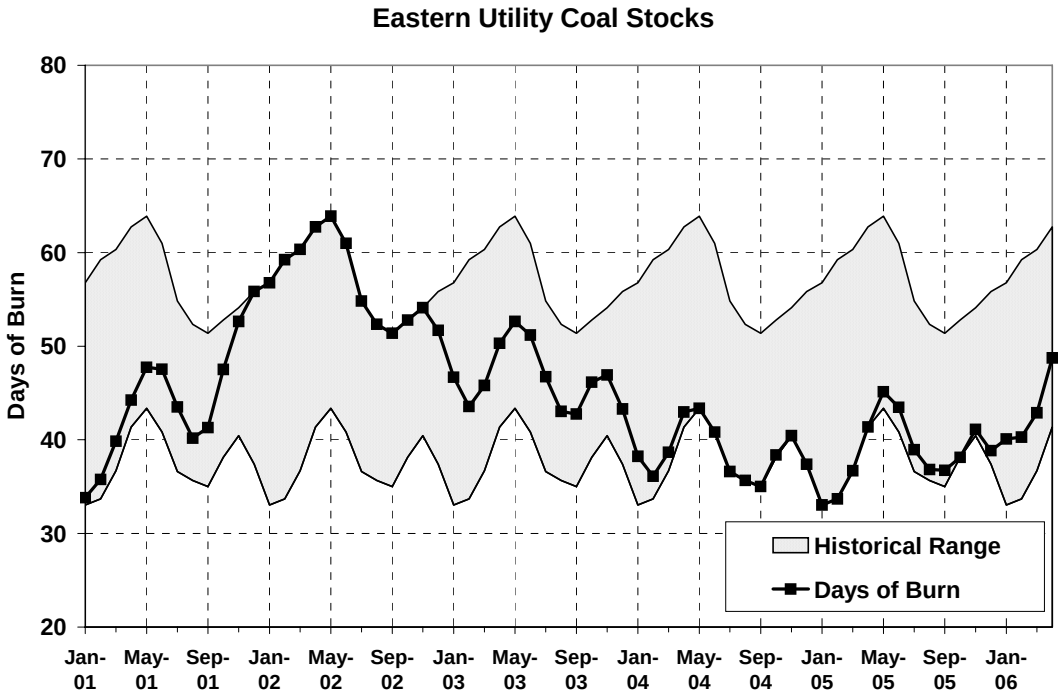
2002/03: Utilities reduced stockpiles from 2001 by cutting purchases. Coal prices collapsed and many Central Appalachian producers filed for bankruptcy. Eastern stocks fell by 13.2 days of burn.

2004: Boom in world coal markets and strong growth in domestic demand increased demand for transportation. Hurricanes adversely affected both transportation and coal production with extensive flooding in KY, TN and VA and damages in FL. Eastern stocks fell by 7.2 days of burn.

2005/06: Coal production began to respond to increased demand and high prices. Hurricanes again impacted transportation with damage in FL, MS, LA and AL. Shipments increased and stocks were rebuilt by April 2006 by 10.9 days of burn.

As shown on Chart 2, increased coal production and shipments have restored Eastern utility stockpiles within the range of historical levels by April 2006.

Chart Two



Source: EVA-Coalcast Stockpile Report
Days of Burn= End-of-month stocks divided by prior 12 month average daily burn.

CSXT has worked very effectively to aid our utility customers in bolstering their inventories. Our capacity is not limitless. When many customers simultaneously began to call upon CSXT, not just to meet their then-current needs for power production, but also to quickly replenish their inventory, once coal supply had responded to the demand increase, the supply and demand did strain CSXT's short term abilities. The actions taken by CSXT -- in hiring additional crews, adding locomotives, increasing its coal car capital investments, increasing the number of coal cars under lease, and managing the recovery from the hurricanes that severely impacted the integrity of the CSXT rail network -- for CSXT's part did protect the reliability of the coal-based electric grid. CSXT feels that it rose to the challenge created by the 2002 inventory drawdown.

Today, there is no stockpile crisis on CSXT. The proof is in the numbers. Eastern inventories have recovered, with reported days of burn available returning to historical levels. CSXT's market share within its primary area of supply, CAPP, has increased. CSXT's growth rates have exceeded both the consumption and production growth rates within CSXT's primary geography.

Every link in the supply chain is important. The supply chain begins with the mines. The capacity of mines to produce coal is not unlimited. When utilities ask for more coal, it cannot always be provided at the places desired, in the quality needed, at the exact moment in time that it is wanted. If the mines have coal available in a given week, but it is not ordered, the mines scale back production rather than building excessive inventory. If utilities delay orders, the mines may not be able to "catch up" readily.

The supply chain ends at the power plant. If railcars cannot be promptly unloaded, they cannot be returned to the coal fields for another load. CSXT measures car capacity in "car-days". Each day that a coal car sits at destination consumes a car-day of capacity that can never be recovered. Decisions to draw

coal from more remote locations require longer hauls in distance and time, and require more cars per unit of coal delivered than shorter hauls. This is neither a good nor bad thing, it is simply one more complicating aspect of supply chain management.

Our point is not that our railroad is not a critical part of the supply chain – only that it is but one important link. Focusing exclusively on the railroads' role vastly oversimplifies a complex economic and physical construct.

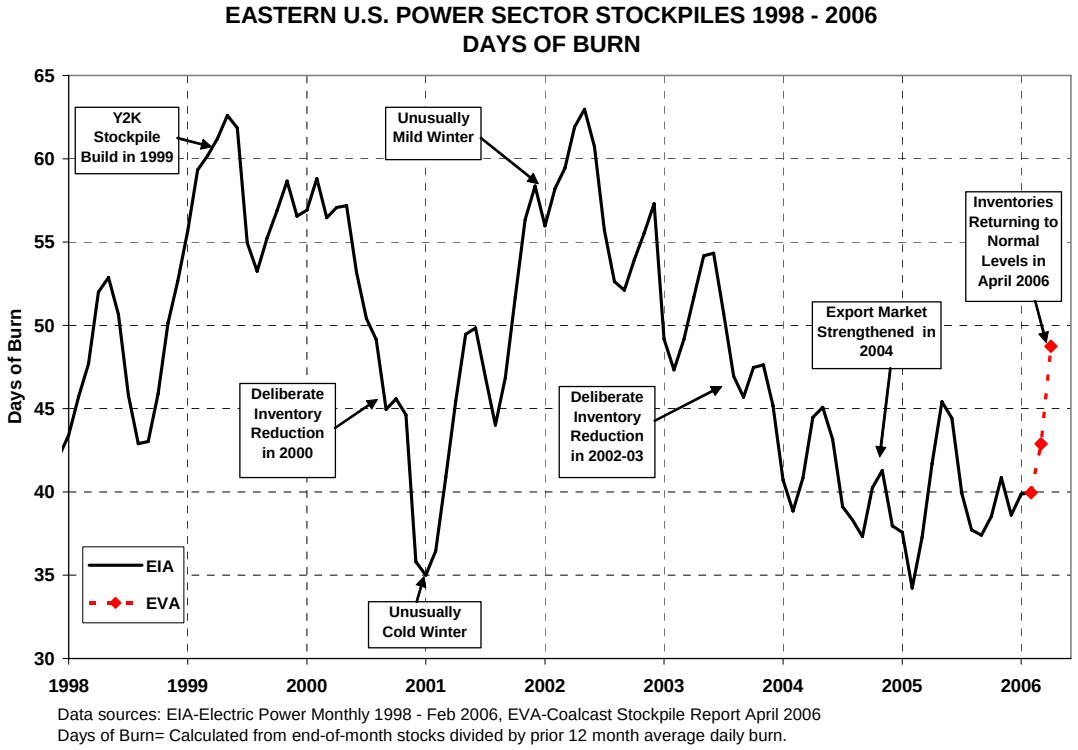
Today, there is no coal-based electric grid reliability issue due to coal inventories at CSXT-served utilities. Inventories are at their highest level since 2003. CSXT has some, although not unlimited capacity for additional trains weekly in most corridors. And, we currently have over 650 coal cars in storage that could be immediately activated for use should demand require it.

CSXT submits that the single most important central question in considering reliability of coal supplies to power plants is inventory. While CSXT would never suggest that our judgment of how much inventory should be maintained at a utility is superior to that of our power company customers, we do note that some reasonable inventory level is – has to be -- prudent. Historically, we believe state public service commissions have permitted compensation to utilities for inventories carried at around seventy days, and in the 1980's inventories typically were more in the range of 70 - 90 days. Whatever inventory level is carried, it certainly should be sufficient to provide a cushion against the many events that can occur in the real world that affect the various links in the coal supply chain.

The electric power industry (utility and non-utility) made the decision in the 1990's to reduce the level of inventory from the prior utility practice. As shown on Chart 3, the average inventory level kept by utilities fell from 80 days of average burn, to 50 days, a decline of 30 days of burn. Using the average delivered price of coal to eastern utilities in 2005 ($41.00 per ton according to DOE/EIA), the

reduction in stockpiles of 30 days, equaling about 50 million tons, represented a reduced investment in coal inventory of $2.1 Billion by the electric power industry. This reduced investment in inventory is the major factor in any reduced reliability of coal supply experienced by the electric power industry.

Chart Three



Data sources: EIA-Electric Power Monthly 1998 - Feb 2006, EVA-Coalcast Stockpile Report April 2006
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While we would not substitute our judgment for that of our customers, it is CSXT's hope that inventories will continue to grow to levels more consistent with the prevailing practices and wisdom of the 80's and early 90's. These higher targets will moderate the impact of any disruption or misalignment with supply and demand responses.

CSXT is making major investments to meet the needs of its customers. Historically, CSXT's capital expenditures have been approximately $1 billion each year. (For 2002, 2003, and 2004 capital investment averaged $977 million.) Against this baseline, CSXT has made a strategic decision to invest for growth.

In 2006, the company will invest $1.420 billion – a forty percent increase. And, looking out into the future, CSXT expects to spend between $1.2 and 1.4 billion in 2007; and an average of $1.2 billion per year in each of the years 2008-2010. CSXT is investing in people, too. In early 2005, the company opened its state of the art, around the clock, training center in Atlanta. Over the past 18 months, over 4,300 operating personnel have been trained, among them 3,200 newly-hired conductors. These huge investments and hiring decisions are necessary to position CSXT for expected demands for transportation from its customers, including electric utilities – but they are not riskless.

When our customers shifted away from the construction of coal plants to natural gas in the late 80's, they sent a strong message to CSXT about the level of rail capacity they would need for the future. Most observers felt that the shift to natural gas would be a long-term trend. When natural gas prices soared, our customers understandably began a shift in favor of coal. The shift in preference was unexpected and, at first, was thought to be transitory, but with the apparent long-term issues of price and reliability of supply in natural gas, CSXT is now undertaking rail capacity additions – all of which must be made in the face of market risks.

Today, CSXT is fully capable of meeting all reasonable needs of our utility customers. CSXT is making investments today to keep up with the growth that we can predict in the future. Working closely with our customers, we can understand and react to many of their infrastructure expansion plans. The long lead times for a new coal plant or the addition of a scrubber at an existing plant are longer than the current lead time required for additional rail capacity on CSXT. The future capacity needs for CSXT's coal customers will not be unexpected events and we are prepared to invest where the market and customer needs support an investment. These capacity improvements represent decades-long investment decisions. Cars and locomotives can be re-deployed – but only if there are alternative uses. Track, bridges, signals are fixed in place for

their useful lives. If CSXT expands a corridor's capacity to meet a demand that evaporates, that investment is forever stranded. And, under the federal rail regulatory scheme, CSXT earns revenues only on the carloads of freight it hauls in a competitive marketplace. Stranded investments do not go into some "rate base"; they simply represent a loss. There must be a balance between the appropriate level of risk and the capacity our customers want. The marketplace is a wonderful mechanism for achieving that balance. Negotiated contracts, with maximum and minimum volumes, have become an essential, and we believe successful, requirement for future understandings between CSXT and its customers.

In summary, there is no stockpile crisis at CSXT-served utilities today. CSXT has been part of the solution to the isolated stockpile issues created by the inventory drawdown in 2002-2003. CSXT wants to transport more coal and could do so today if the demand were there. Coal will continue to be a vital sector for CSXT's financial success in the future, and our railroad looks forward to being an integral part of the coal-based electric grid for generations to come.